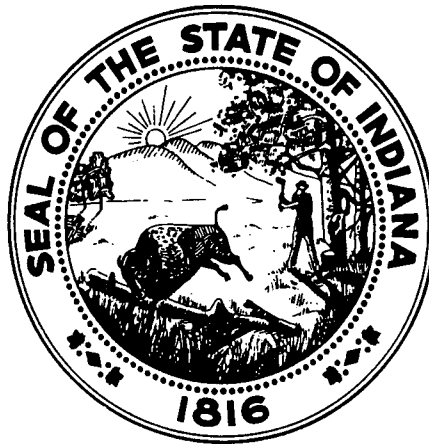


THIS REPORT SHOULD BE FILED
AS AN OFFICIAL DOCUMENT SUBJECT
TO PUBLIC INSPECTION

STATE BOARD OF ACCOUNTS
302 West Washington Street
4th Floor, Room E418
INDIANAPOLIS, INDIANA 46204-2738

AUDIT REPORT
OF
INDIANA STATE TEACHERS' RETIREMENT FUND
STATE OF INDIANA
July 1, 1998 to June 30, 1999



FILED
JAN 21 2000
Charles Johnson II
STATE EXAMINER

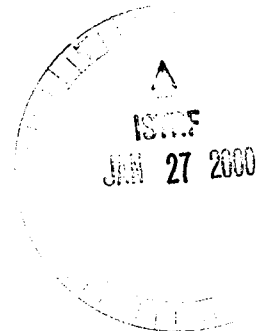


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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Dr. Mary J. Pettersen	01-11-93 to 04-14-99
Interim Director	Dr. William E. Christopher	04-15-99 to 01-08-01
President of the Board	Mr. Owen B. Melton	10-27-92 to 09-30-00



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS

302 WEST WASHINGTON STREET
4TH FLOOR, ROOM E418
INDIANAPOLIS, INDIANA 46204-2765
(317) 232-2513

INDEPENDENT AUDITORS' REPORT

TO: THE OFFICIALS OF THE INDIANA STATE TEACHERS' RETIREMENT FUND

We have audited the accompanying statement of plan net assets of the Indiana State Teachers' Retirement Fund as of June 30, 1999 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Indiana State Teachers' Retirement Fund are intended to present the financial position and results of operations of only the portion of the funds of the State that are attributable to the transactions of the agency.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indiana State Teachers' Retirement Fund as of June 30, 1999 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

STATE BOARD OF ACCOUNTS

November 24, 1999



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
4TH FLOOR, ROOM E418
INDIANAPOLIS, INDIANA 46204-2765
(317) 232-2513

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE INDIANA STATE TEACHERS' RETIREMENT FUND

We have audited the financial statements of the Indiana State Teachers' Retirement Fund as of and for the year ended June 30, 1999 and have issued our report thereon dated November 24, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Indiana State Teachers' Retirement Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Indiana State Teachers' Retirement Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Indiana State Teachers' Retirement Fund's management. However, this report is a matter of public record and its distribution is not limited.

STATE BOARD OF ACCOUNTS

November 24, 1999

INDIANA STATE TEACHERS' RETIREMENT FUND
STATEMENT OF PLAN NET ASSETS
June 30, 1999

Assets

Cash and Cash Equivalents	\$ 519,972,460
Securities Lending Collateral	<u>228,095,921</u>
Receivables	
Employer Contributions Receivable	15,007,588
Due From PERF	2,534,496
Member Contributions Receivable	25,676,816
Receivable From State Lottery	7,500,000
Receivables for Securities Sold	25,708,692
Investments Interest Receivable	<u>36,050,210</u>
Total Receivables	<u>112,477,802</u>
Investments	
Bonds	2,791,886,500
Equity Investments	1,724,121,062
Real Estate	<u>260,000</u>
Total Investments	<u>4,516,267,562</u>
Furniture and Equipment (Original Cost of \$495,045 Net of \$407,169 Accumulated Depreciation)	<u>87,876</u>
Insurance Premium Paid in Advance	<u>36</u>
Postage Paid in Advance	<u>15,000</u>
Total Assets	<u>5,376,916,657</u>

Liabilities

Accrued Benefits Payable	8,077,227
Accrued Salaries Payable (See Note 1)	58,551
Accrued Liability for Compensated Absences - Current	3,069
Accrued Liability for Compensated Absences - Long-Term	107,209
Accounts Payable	1,602,696
Due To PERF	5,709,820
Securities Lending Collateral	228,095,921
Payables for Securities Purchased	<u>158,324,362</u>
Total Current Liabilities	<u>401,978,855</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 4,974,937,802</u>

(A schedule of funding progress is presented on Page 16)

The accompanying notes are an integral part of the financial statements.

INDIANA STATE TEACHERS' RETIREMENT FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
Year Ended June 30, 1999

Additions	
Contributions	
Member Contributions	\$ 94,752,238
Employer Contributions	510,154,678
Employer Contributions - Pension Stabilization	<u>112,500,000</u>
Total Contributions	<u>717,406,916</u>
Investments	
Net Appreciation (Depreciation) in Fair Value	269,815,901
Interest Income	217,727,041
Dividend Income	14,909,058
Securities Lending Income	24,456,302
Less Investment Expense:	
Investment Fees	(4,485,307)
Securities Lending Fees	<u>(23,529,687)</u>
Net Investment Income	<u>498,893,308</u>
Other Additions	
Transfers From Other Retirement Funds	1,343,631
Annuity and Disability Refunds	1,042,672
Outdated Benefit Checks	46,659
Reimbursement of Administrative Expense	<u>333</u>
Total Other Additions	<u>2,433,295</u>
Total Additions	<u>1,218,733,519</u>
Deductions	
Annuity and Disability Benefits	495,273,077
Voluntary and Death Withdrawals	7,178,194
Refunds - Members/School Units	--
Claims on Outdated Benefit Checks	16,144
Administrative Expenses	3,275,085
Depreciation Expenses	30,738
Transfers to Other Retirement Funds	<u>3,915,184</u>
Total Deductions	<u>509,688,422</u>
Net Increase (Decrease)	709,045,097
Net Assets Held in Trust for Pension Benefits:	
Beginning of Year	<u>4,265,892,705</u>
End of Year	<u>\$ 4,974,937,802</u>

The accompanying notes are an integral part of the financial statements.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 1999

Note 1. Summary of Significant Accounting Policies

- A. Reporting Entity - The Indiana State Teachers' Retirement Fund is an agency of the State of Indiana. The financial statements presented in this report represent only those funds that the Indiana State Teachers' Retirement Fund has responsibility for and are not intended to present the financial position or results of operations of the State of Indiana or all of the retirement and benefit plans administered by the State.
- B. Basis of Presentation - The financial statements of the Indiana State Teachers' Retirement Fund have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles.
- C. Fund Accounting - The State of Indiana uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the servicing of general long-term debt (debt service funds), and the acquisition or construction of general fixed assets (capital projects funds). The General Fund is used to account for all activities of the general government not accounted for in some other fund.

Proprietary funds are used to account for activities similar to those in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or government (internal service funds).

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governmental units, or on behalf of other funds within the same governmental unit. When these assets are held under the terms of a formal trust agreement, either a pension trust fund, a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the government holds on behalf of others as their agent.

The Indiana State Teachers' Retirement Fund is a pension trust fund. For a description of this fund, see Note 2.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 1999
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

- D. Basis of Accounting - The records of this agency are maintained on a cash basis. The accrual basis is used for reporting purposes.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included in the balance sheet.

- E. Budgets - State agencies, as part of the State of Indiana, submit proposed budgets on a biennial basis to the State Budget Agency. The State Budget Agency reviews the proposal and makes changes to them before submitting a total budget proposal to the Indiana General Assembly. After budget hearings the General Assembly appropriates funds for state agencies' operations, property maintenance, grants and special projects. For operations, the appropriations are divided into two components; Personal Services for salaries, wages and relating benefits, and Other Operating Expenses.

The Budget Agency limits the agency's ability to make purchases by allotting a portion of the appropriations. The appropriated money has to be allotted before it can be disbursed. The Indiana State Teachers' Retirement Fund receives appropriations from the state that represent employer contributions. Pensions, annuities, and benefits are not appropriated before being disbursed.

- F. Deposits and Investments - The Treasurer of State acts as the official custodian of the cash and securities of the funds, except for securities held by banks or trust companies under custodial agreements with the Board of Trustees. The Board of Trustees may contract with investment counsel, trust companies, or banks to assist the Board in its investment program. The Board is required to diversify investments in accordance with prudent investment standards. The Board has issued investment guidelines for its investment program which authorized investments of: U.S. Treasury and Agency obligations, U.S. Government securities, common stock, international equity, corporate bonds, notes and debentures, repurchase agreements secured by U.S. Treasury obligations, mortgage securities, commercial paper, and banker's acceptances. See Note 4 for more details.
- G. Method Used to Value Investments - GASB 25 requires that investments of defined benefit plans be reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investment that do not have an established market are reported at estimated fair value.
- H. Equipment - Equipment with a cost of \$5,000 or more is capitalized at the original cost. Depreciation is computed on the straight-line method over the estimated five year life of all assets.
- I. Contributions Receivable - The contributions receivable was determined by using actual contributions received in July for days paid in the quarter ended June 30, 1999.
- J. Inventories - Inventories of consumable supplies are not recognized on the balance sheet as they are considered immaterial. Purchases of consumable supplies are recognized as expenditures at the time of purchase.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 1999
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Reserves and Designations

The following are the legally required reserves and other designations of fund equity:

1. Member Reserve: The member's reserve represents member contributions made by or on the behalf of the employees plus any interest distributions, less amounts refunded or transferred to the Benefits in Force reserve for retirement disability, or other benefit. For Indiana State Teachers' Retirement Fund this reserve is the employees' annuity savings account.
2. Benefits in Force: This reserve represents the actuarially present value of future benefits for all members who are presently retired or disabled. The accumulated contributions of the members are transferred to the reserve upon retirement or disability. The remainder of the actuarial pension cost is transferred from the employer reserve to fund the benefits. This reserve contains \$1,340,877,877 for the Pension Stabilization Fund. The Pension Stabilization Fund was established by IC 21-6.1-2-8.
3. Employer Reserves: This reserve consists of the accumulated employer contributions plus earnings distributions less transfers made to the benefits in force reserve of the actuarial pension cost.
4. Undistributed Investment Income Reserve: This reserve was credited with all investment earnings. Interest transfers have been made annually to the other reserves as allowed or required by statutes. The transfers are at rates established by the Board of Trustees.

The following are the balances of the reserves and designations of fund equity:

<u>Member Reserve</u>	<u>Employer Reserve</u>	<u>Benefits In Force</u>	<u>Undistributed Income</u>
<u>\$ 2,455,385,976</u>	<u>\$ 102,315,706</u>	<u>\$ 2,090,896,222</u>	<u>\$ 106,541,517</u>

- L. Payables and Liabilities - Payables and liabilities are not maintained throughout the year on the accounting records. They are calculated or estimated for financial statement reporting purposes and are posted to the general ledger at year end.
- M. Compensated Absences - Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment. Personal leave days are earned at the rate of one day every four months; any personal accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and as Accrued Compensated Absences Payable.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 1999
(Continued)

Note 2. Fund Description

The Indiana State Teachers' Retirement Fund is the administrator of a multiple-employer retirement fund established to provide pension benefits for persons who are engaged in teaching or in the supervision of teaching in the public schools of the state. At June 30, 1999, the number of participating school unit employers was:

Public School Units	316
Higher Education Units	4
State of Indiana Agencies	29
Associations	<u>4</u>
Total Employers	<u>353</u>

Membership in the Fund is required for all legally qualified and regularly employed teachers who serve in the public schools of Indiana, including the faculty at Vincennes University. Additionally, faculty members at Ball State University, Indiana State University, and University of Southern Indiana have the option of selecting membership in the Fund or the alternate University Plan. At June 30, 1998, based on the 32nd Actuarial Valuation Report of Retirees and Beneficiaries and the 20th Actuarial Valuation Report of Active and Inactive Members, Indiana State Teachers' Retirement Fund membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	31,325
Active Plan Members	84,664
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	<u>4,144</u>
Total	<u>120,133</u>

The Indiana State Teachers' Retirement Fund provides retirement benefits, as well as death and disability benefits. Eligibility to retire occurs at age fifty with fifteen or more years of service or at age sixty-five with ten years of service. Annual retirement benefits, disability benefits, and death benefits are computed as follows:

Regular Retirement (No Reduction Factor For Age):

Eligibility - Age sixty-five with ten years service or age fifty-five with age plus years of service equaling at least eighty-five or age sixty with at least fifteen years of service.

Mandatory Retirement Age - none.

Annual Amount - State pension equal to total years of service times 1.1% of final average salary; plus an annuity purchased by the member's accumulated contributions unless the member elects to withdraw the accumulated contributions in a lump sum.

Type of Final Average Salary - Average of highest five years.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 1999
(Continued)

Note 2. Fund Description (Continued)

Early Retirement (Age Reduction Factor Used)

Eligibility - Age fifty with fifteen or more years service.

Annual Amount - State pension is computed as regular retirement benefit but reduced one-tenth of 1% for each month age at retirement is between sixty and sixty-five and five-twelfths of 1% for each month under age sixty.

Deferred Retirement (Vested Benefit)

Eligibility - Ten years of service. Benefit commences at age sixty-five, or at age fifty if member has fifteen or more years of service.

Annual Amount - Computed as a regular retirement benefit with state pension based on service and final average salary at termination.

Regular Disability

Eligibility - Five years of service.

Annual Amount - \$125 per month plus \$5 for each year of service credit over five years.

Disability Retirement (No Reduction Factor For Age)

Eligibility - Five years of service and also qualify for Social Security Disability at time of termination.

Annual Amount - Computed as a regular retirement benefit with state pension based on service and final average salary at termination.

Duty Death Before Retirement

Eligibility - Fifteen years of service. Spouse to whom member had been married for two or more years is automatically eligible, or a dependent may be designated as beneficiary.

Annual Amount - Computed as regular retirement benefit but reduced in accordance with a 100% joint and survivor election.

Benefit Increases After Retirement: No automatic increases after retirement are provided. Unscheduled increases have been made from time to time.

Each member shall, as a condition of employment, contribute to the Fund 3% of his/her compensation. Effective July 1, 1986, each employing unit may elect to "pick up" the employee contribution. No part of the member contributions to the Fund picked up by the employer is includable in the gross income of the member. The "pick up" amount does count in the salaries used to determine the final average at retirement. Any member who leaves covered employment has the option to withdraw accumulated contributions and interest. In the event of a death of a member who has served less than fifteen years or does not meet the surviving spouse requirements, their designated beneficiary or estate is entitled to a lump sum settlement of their contributions plus interest.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 1999
(Continued)

Note 2. Fund Description (Continued)

Indiana pension law stipulates that each member of the Fund shall have the opportunity to direct their annuity savings account into one of five current investment programs:

1. The Guaranteed Fund - Interest is credited at a rate annually determined by the Board of Trustees. Principal and interest are "guaranteed." Market risk is assumed by the Fund.
2. The Bond Fund - Contains high quality fixed-income instruments which provide interest/capital gain income. Market risk is assumed by the member.
3. S & P 500 Index Fund - Closely tracks the return on the S & P 500 Index by employing an indexing strategy that invest in the stocks of the S & P 500 Index companies. Market risk is assumed by the member.
4. Small Cap Equity Fund - Consist of stocks with a market capitalization of less than \$1.5 billion. Market risk is assumed by the member.
5. International Equity Fund - Consists of securities of developed non-U.S. countries. Market risk is assumed by the member.

The Guaranteed Fund, Bond Fund, S & P 500 Index Fund, Small Cap Fund and International Fund are valued at market value. When a member retires, dies or suspends membership and withdraws from the fund, the amount credited to the member shall be valued at the market value of the member's investment plus accrued interest on investment less accrued investment expenses.

Members may only make a selection or re-allocation once during any twelve month period. The changes will be in effect the first month of the quarter following the request for change. Members may request allocations to one or all of the approved funds, as long as those allocations are made in 10% increments of the total balance in the member's account at the time of allocation. The total must equal 100%.

Note 3. Employer Contributions Required and Employer Contributions Made

The Indiana State Teachers' Retirement Fund is funded on a "pay as you go" basis for employees hired prior to July 1, 1995. State appropriations are made for the amount of estimated pension benefit payout for each fiscal year. For employees hired on or after July 1, 1995, the individual employer will make annual contributions. These contributions are actuarially determined.

Based on the actuarial valuation at June 30, 1998, employer actuarially required contributions were \$524,815,537 normal cost, with no amortization of the unfunded actuarial accrued liability and zero provision for expenses. Contributions made by employers for the year ended June 30, 1999 totaled \$510,154,678 which was 18.9% of covered payroll.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 1999
(Continued)

Note 4. Cash, Investments and Securities Lending

Investments made by the Indiana State Teachers' Fund, including repurchase agreements, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 includes investments that are insured or registered or for which securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or its agency in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the State's name.

State statutes and Board of Trustees permit the Fund to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Fund's custodial bank manages the securities lending program and receives securities or cash as collateral. The collateral securities cannot be pledged or sold by the Fund unless the borrower defaults, but cash collateral may be invested by the Fund. Collateral securities and cash are initially pledged at 102% of the market value of the securities lent. No more than 40% of Teachers' Retirement Fund's total assets may be lent at any one time. At year-end, Teachers' Retirement Fund has no credit risk exposure to borrowers because the amount Teachers' Retirement Fund owes the borrowers exceed the amounts the borrowers owe Teachers' Retirement Fund.

Approximately 25% of the securities loans can be terminated on demand either by the Fund or by the borrower, although generally the average term of these loans is one day. Cash collateral is generally invested in securities of a longer term, generally with maturities up to one year, and the weighted - average term to maturity of all collateral investments was thirty days.

	Category			Carrying Value
	1	2	3	
Corporate Debt/Equity Securities				
Not on Securities Loan	\$ 2,833,441,715	\$ -	\$ -	\$ 2,833,441,715
On Securities Loan	-	57,505,692	-	57,505,692
Foreign Bonds	4,850,650	-	-	4,850,650
Mortgage Securities				
Not on Securities Loan	36,752,378	-	-	36,752,378
On Securities Loan	-	5,000,000	-	5,000,000
U.S. Treasury and Agency Obligations				
Not on Securities Loan	1,182,796,448	-	-	1,182,796,448
On Securities Loan	-	227,423,471	-	227,423,471
Investments on Securities Loan				
Repurchase Agreements	-	149,100,037	-	149,100,037
Certificate of Deposit	-	25,000,000	-	25,000,000
Total Investments Categorized	<u>\$ 4,057,841,191</u>	<u>\$ 464,029,200</u>	<u>\$ -</u>	<u>\$ 4,521,870,391</u>

<u>Investments Not Categorized</u>	<u>Carrying Value</u>
Investments Held by Broker - Dealers Under Securities Loans With Cash Collateral	
United States Government Securities	\$ 175,268,292
Corporate Debt/Equity Securities	<u>46,964,799</u>
Total Investment Not Categorized	<u>\$ 222,233,091</u>

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 1999
(Continued)

Note 5. Employee Retirement System

The State of Indiana contributes to the Indiana Public Employees' Retirement Fund (PERF), an agent multiple-employer retirement system which acts as a common investment and administrative agent for state employees and employees of the various subdivisions of the State of Indiana. In addition, the State of Indiana contributes to the Indiana State Teachers' Retirement Fund (TRF) for state employees who are eligible to be members of that plan. The agency payroll for the employees covered by Indiana State Teachers' Retirement Fund for the year ended June 30, 1999 was \$136,010 and the agency payroll for the employees covered by Indiana Public Employees' Retirement Fund was \$830,623.

All full-time employees covered by PERF are required, after one year of service, to participate in the plan. State statutes govern most requirements of the system, including the benefits which vest after ten years of service. Employees who retire may receive benefits with fifteen years of service if they have reached fifty years of age. An employee may receive benefits at age sixty-five with ten years of service. All full-time employees covered by TRF and retiring after May 1, 1989 may receive normal benefits at age sixty with at least fifteen years of service; or the member is at least fifty-five years of age and the years of age and years of creditable service add up to at least eighty-five.

The plan is a defined benefit plan. Contributions equal to three percent of each employee's compensation is required which may be paid by the employer or withheld from employees. The State pays the three percent contribution for its employees. Benefits from this three percent depends on the amount contributed, plus investment earnings. Employees who leave employment before qualifying for benefits receive this accumulated contribution, plus the investment earnings credited.

PERF's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the State's employee group as a whole has tended to remain level as a percentage of annual covered payroll. PERF uses the entry age normal cost method to determine the contribution requirements and the actuarial accrued liability. The State's annual contribution to PERF consists of the amortization of the unfunded actuarial accrued liability (expressed as a level dollar amount), plus the entry age normal cost (expressed as a percentage of total payroll).

The amortization of the unfunded actuarial accrued liability is the level dollar payment necessary to amortize the unfunded actuarial accrued liability. The initial 1975 liability is being amortized over forty years from the date of change, with the exception that changes in liabilities due to cost of living adjustments are being amortized over fifteen years. The entry age normal cost is determined on an individual basis and then increased proportionally to account for PERF operational expenses. TRF, on the other hand, is funded on a pay-as-you-go basis for employees hired prior to July 1, 1995, with the state appropriating only the amount necessary to fund the benefits due in a particular year. For employees hired on or after July 1, 1995 the employer makes annual contributions. The General Assembly is required to appropriate an amount sufficient to cover the state's actuarial liability for each member covered by the pre-1996 account and for each state employee covered by the 1996 account.

The State, as the employer, makes contributions to PERF in accordance with actuarially determined requirements computed through an actuarial valuation. These contributions are paid through the individual state agencies using the actuarial percentages.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 1999
(Continued)

Note 6. Deferred Compensation Plan

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code.

The state has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in an expendable trust.

Note 7. Contingent Liabilities

The Indiana State Teachers' Retirement Fund is defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, the resolution of these matters will not have a material or adverse effect on the financial condition of the Fund. Tort claims are paid from the General Fund of the State of Indiana through the Attorney General's Office and are not paid through the funds of the Fund.

INDIANA STATE TEACHERS' RETIREMENT FUND
REQUIRED SUPPLEMENTAL SCHEDULES
June 30, 1999

SCHEDULE OF FUNDING PROGRESS

(Dollar Amounts in Millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (ALL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6-30-92	\$ 2,376	\$ 7,949	\$ 5,573	29.89%	\$ 2,416	230.67%
6-30-93	2,592	8,508	5,916	30.47%	2,536	233.28%
6-30-94	2,809	9,088	6,279	30.91%	2,615	240.11%
6-30-95	2,984	9,675	6,691	30.84%	2,729	245.18%
6-30-96	3,263	10,331	7,068	31.58%	2,879	245.50%
6-30-97	3,750	11,044	7,294	33.96%	2,985	244.36%
6-30-98	4,266	11,779	7,513	36.22%	3,095	242.75%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Contribution Rates as Percents of Valuation Payroll	Annual Required Contribution	Percentage Contributed
1992	16.32%	\$ 416,022,498	59%
1993	16.31%	436,933,180	61%
1994	16.56%	456,846,570	63%
1995	16.74%	481,927,124	65%
1996	17.34%	508,940,065	106%
1997	16.14%	508,259,679	92%
1998	16.07%	524,815,537	117%

NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	June 30, 1998
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Closed
Remaining Amortization Period	40 Years
Asset Valuation Method	Book Value
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases	5.50% to 10.60%
Post Retirement Benefit Increases	5.50%
Cost of Living Increases	Unscheduled Increases Periodically

INDIANA STATE TEACHERS' RETIREMENT FUND
AUDIT RESULTS AND COMMENTS
June 30, 1999

BANK ACCOUNT RECONCILIATIONS

As stated in the prior audit report (B10370), the Indiana State Teachers' Retirement Fund maintains a checking account for the purpose of issuing the monthly benefit checks.

Depository reconciliations of the fund balance to the checking account balance were incorrect.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Page 1:5)

INDIANA STATE TEACHERS' RETIREMENT FUND
EXIT CONFERENCE

The contents of this report were discussed on January 4, 2000, with Dr. William Christopher, Interim Director. The official response to the audit findings has been made a part of this report and may be found on Page 19. Also, a copy of the Audit Result and Comment was mailed to Dr. Mary J. Pettersen, former Director, on December 29, 1999.



STATE OF INDIANA

FRANK O'BANNON, Governor

INDIANA STATE TEACHERS' RETIREMENT FUND

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OFFICIAL RESPONSE

January 5, 2000

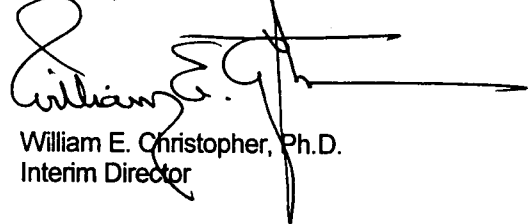
Charles Johnson, III
State Examiner
State Board of Accounts
302 W Washington St, Room E418
Indianapolis, IN 46204-2738

Dear Mr. Johnson:

In response to the "Audit Results and Comments " that pertain to the audit of the Indiana State Teachers' Retirement Fund for the fiscal year ending June 30, 1999 I would like to state our agency's position.

Since the implementation of our current data processing system in 1992 my staff has not been satisfied with the outstanding check reconciliation function of the system. This function does not seem to be able to account for outstanding checks, replacement checks, and manual checks in a manner that allows us to reconcile to our bank account statement accurately. Due to this, and other shortcomings in our current data processing system, we are in the process of implementing a new data processing system. Teacher Retirement Fund staff is involved closely with the vendor in the design of this system, and is working to ensure that it will meet the requirements of our agency. We believe that after this system is implemented in the 2001 fiscal year that we will be able to reconcile our outstanding checks to our bank statement.

Sincerely,



William E. Christopher, Ph.D.
Interim Director